SMART. BENEFITS Highlights

CHANGES EFFECTIVE JANUARY 2002

BOARD OF GOVERNORS

Table Of Contents

Overview Of What s New For 2002

This booklet contains an overview of the 2002 changes to the Federal Reserve System s benefit programs. Please keep this booklet handy and refer to it if you have questions about the Retirement Plan, the Thrift Plan, or your prescription drug benefits.

Here are some highlights of what s new for your benefit programs in 2002:

The Retirement Plan

A new Portable Cash Option (PCO) has been added, which allows you to take some or all of your vested retirement benefit as a lump sum when you terminate or retire from the Federal Reserve*. See the summary on page 2 for more information about this new benefit.

The definition of pay, which is used to calculate your retirement benefit, has been expanded to include cash and incentive payments you receive *after* 2001. See the summary on page 4 for more information about what this means to you.

Post-Retirement Death Benefit

Effective January 1, 2002, the post-retirement death benefit provided to the beneficiaries of eligible retirees increased to $5,000. See page 5 for more information.

The Thrift Plan

Effective January 1, 2002, the Employer Matching contribution was increased once you have five or more years of service to $1 for every $1 you contribute to the Thrift Plan, up to 6% of salary. The match of $.80 for every $1 contributed remains in effect for your first five years of service. See page 6 to find out how this increase works.

A new vesting schedule also became effective as of January 1, 2002. Under the new schedule, employees receive 20% of their Employer Matching contribution for each year of service, becoming 100% vested after completing five years of service. However, if you were a Federal Reserve employee as of December 31, 2001, you were automatically 100% vested in your current and future contributions as of January 1, 2002, regardless of length of service or whether or not you participate in the plan. See page 7 for details about the new vesting schedule.

The deadline for initiating month-end transactions has been shortened from five to *three business days before the last business day of the month.* This change gives you more time to decide on any month-end transactions you may wish to make. See page 7 for a summary of month-end transactions and how they affect your account.

** The benefit programs covered in this booklet apply to employees of the Board of Governors and the Reserve Banks. The term Federal Reserve as used herein is intended to refer to the employers participating in the respective programs.*

SMART BENEFiTS On-Line!
Now you and your family members can access important benefits-related information on-line from any PC at the new SMART BENEFiTS website. This new site includes your *Benefits Handbook*, Thrift Plan updates, other reference materials, and electronic copies of the SMART BENEFiTS print materials. You can also link to *Benefits Express On-Line* directly from the SMART BENEFiTS site so you can access your personal benefits information. See page 12 for detailed information about the SMART BENEFiTS website.

The Retirement Plan

As you know, the Federal Reserve provides you with two types of plans to help you save for your retirement   the Retirement Plan and the Thrift Plan. The Retirement Plan is a *Defined Benefit* plan. *Defined Benefit* plans provide a benefit that is determined by a specific formula (typically based on years of service and pay).

Effective January 1, 2002, the Retirement Plan was enhanced as follows:

- New Portable Cash Option (PCO); and
- Expanded definition of pay.

More Flexibility With Portable Cash Option (PCO)

Effective January 1, 2002, the Retirement Plan features a new Portable Cash Option, or PCO, which provides a level of flexibility that didn t previously exist in the Retirement Plan. The amount of this portable benefit is built up over time in your PCO account. Once you are vested, you ll have an opportunity to receive a significant portion of your Retirement Plan benefit as a lump sum when you leave or retire. That means you can take your Retirement Plan benefit with you and roll it over into the Thrift Plan, another employer s qualified plan, or an Individual Retirement Account (IRA).

Please note that the vesting schedule for the Retirement Plan did not change. You are fully vested in the Retirement Plan after you reach five years of service or age 65, whichever occurs first.

You may also take the PCO distribution as cash. However, if you do so, there is a mandatory 20% withholding on your lump sum payment if it is not directly rolled over to the Thrift Plan, an eligible retirement plan, or an IRA. In addition, you may have to pay a 10% early withdrawal tax if you are under age 55.

How The New PCO Option Works

If You Are An Existing Employee On January 1, 2002

Here s how the new payment option works for you:

The Federal Reserve established a PCO account for all employees on January 1, 2002. The account earns interest based upon the 30-Year Treasury Rate on September 30, 2001, which was 5.48%. The benchmark used for calculating the January 1, 2003 rate will be determined in 2002.

Your initial account balance was determined by your years of service. Specifically, your PCO account was credited for years of service worked between January 1, 1992 and December 31, 2001. If you worked part-time during this period, your PCO account was credited based on your part-time service.

If you have *less than 10 years of full-time service,* your initial PCO account equals 5% of your 2001 pay for each year of employment up to five years, and 10% of your 2001 pay for each year after that (to a maximum of 10). For future years of service, your PCO account is credited monthly based on the pay you earn in that year.

For your initial PCO account balance, your pay includes your 2001 base pay, 2001 overtime, and 2001 shift differential.

If you have *10 or more years of full-time service,* your PCO account equals 75% of your 2001 pay.

After 10 years of service, credit to your PCO account stops; however, your PCO account continues to earn interest.

The value of your PCO account determines the maximum lump sum amount available to you when you leave as a vested employee.

If Your Employment Begins On Or After January 1, 2002

Here s how the new payment option will work for you:

The Federal Reserve will establish a PCO account for you beginning on your first day of work. The account will earn interest. Your PCO account will be credited monthly with 5% of your pay during your first five years of employment, and 10% of your pay for the next five years.

If you work any part of a month, you will receive a PCO credit for that month. The crossover from the 5% to 10% credit rate will occur in the first full month following the completion of the fifth year of service.

After 10 years of service, credit to your PCO account will stop; however, your PCO account will continue to earn interest.

The value of your PCO account will determine the maximum lump sum amount available to you when you leave as a vested employee.

What Happens When You Leave

You will receive a benefit when you leave the Federal Reserve after completing five years of service. The benefit is based on the value of your PCO account or on your retirement formula benefit, whichever is greater. If you have five years of service and leave the Federal Reserve after January 1, 2002, you can take advantage of the potentially greater benefit from the PCO.

What Happens If You Are Under Age 50 When You Leave

You can receive your entire PCO account as a lump sum; or

You can defer receipt of your entire retirement benefit and receive it as a monthly benefit starting anytime after age 50.

What Happens If You Age 50 Or Older When You Leave

You can receive your entire PCO account, or ***a portion of your PCO account,*** as a lump sum. If you take a portion of your PCO account as a lump sum, the remainder will stay in the plan and be payable as a monthly benefit when you commence retirement payments; or

You can defer receipt of your entire benefit and receive it as a monthly benefit starting anytime after you retire.

Remember, any lump sum you take from the PCO will reduce your future monthly benefits.

Expanded Definition Of Pay Brings You More Value

One of the key components in calculating your Retirement Plan benefit is your salary. Effective January 1, 2002, the definition of salary used to calculate your Retirement Plan benefit includes cash and incentive awards.

That means your Final Average Salary, which is the term used in the Retirement Plan formula, will be based on:

Your base pay;

Any regular shift differential;

Any overtime; and

Cash and incentive payments you receive after 2001.

What This Change Means To You

By enhancing the definition of pay for Retirement Plan purposes, the value of your benefit may increase, since pay is one of the main components in determining the amount you ll receive when you retire.

Post-Retirement Death Benefit

Please note:
This benefit does not apply to participants in the Board Benefit Structure.

In addition to thinking about the amount of your Retirement Plan benefit, it s also smart to think about other retirement needs, such as health care and life insurance. Although these benefits are not part of the Retirement Plan, they are important to your retirement. The Federal Reserve Banks provide retirees with additional benefits based on their combined age and the years of service they have when they retire. In most cases, this combination is referred to as the ***Rule of 80.***

You meet the ***Rule of 80*** when your age plus your years of service equal or exceed 80. For example, if you are age 55 and have worked at a Federal Reserve Bank for 25 years, you meet the requirements for the Rule of 80. If you meet the Rule of 80 and retire:

- Your designated beneficiary will receive a lump sum benefit at your death; and
- You may be eligible for post-retirement health care benefits. (The Rule of 80 does not apply to employees of the Board of Govenors or the Federal Reserve Bank of Chicago for purposes of determining eligibility for post-retirement health benefits.)

As part of the benefit enhancements, the post-retirement death benefit provided to the beneficiaries of eligible retirees was increased to $5,000 as of January 1, 2002.

The Thrift Plan

The Federal Reserve provides you with a Thrift Plan that can make it easy to save money and help you meet your financial goals. The Thrift Plan is a *Defined Contribution* plan. *Defined Contribution* plans provide you with a personal account, which is based on contributions you make, Employer Matching contributions, and investment earnings. You may begin saving in the Thrift Plan on your first day of work. Effective January 1, 2002, all contributions to your Thrift Plan account (employee before- and after-tax, as well as Employer Matching contributions and mandatory contributions to the Board Benefit Structure) are limited to $40,000 or 100% of your annual compensation, whichever is less. The Federal Reserve adds to your savings by providing an Employer Match to the first 6% of salary you contribute.

Effective January 1, 2002, enhancements to the Thrift Plan include:

Increased Employer Match;

Full vesting for all employees as of December 31, 2001; and

New month-end transaction deadlines.

Increased Match

During the first five years of service, the Federal Reserve matches your Thrift Plan contributions at $.80 for every $1 you contribute, up to the first 6% of salary. After five years of service, the Employer Match increases to $1 for every $1 you contribute, up to 6% of salary.

For example, let s assume your salary is $30,000 and you contribute 6% (or $1,800) of your salary to the Thrift Plan. Each year for your first five years of service, the Federal Reserve adds another $.80 for every $1 you contribute, up to the first 6% of your salary, for a matching contribution of $1,440. Using this example, a total of $3,240 for the year would be contributed to your Thrift Plan account.

For employees with five or more years of service, the Federal Reserve began matching your savings on a dollar-for-dollar basis, up to the first 6% of your salary, on January 1, 2002. That means that if your salary is $30,000 and you contribute 6% (or $1,800), the Federal Reserve match increases to $1,800 in 2002. Using this example, a total of $3,600 would be contributed to your Thrift Plan account for the year.

Full Vesting For All Current Employees

The vesting schedule for the Employer Match has changed from 100% vesting after one year of service to five-year, graduated vesting at 20% per year. As part of this transition, if you were an employee as of December 31, 2001, you were 100% vested in your Employer Matching contributions as of January 1, 2002. Even if you do not participate in the plan currently, you will be 100% vested in Employer Matching contributions when you begin contributing to the plan.

Employees who begin employment after December 31, 2001 are subject to the new vesting schedule:

Full Years Of Service	% Vested
1	20
2	40
3	60
4	80
5	100

New Deadlines For Month-End Transactions

The deadline for initiating month-end transactions has been shortened from five *to three business days before the last business day of the month.* This change will give you more time to decide on any month-end transactions you may wish to make.

Month-end transactions include:

- Transfers between the Thrift Plan s Fixed Income Fund and the Equity Group Funds;
- Hardship withdrawals;
- Loans; and
- Withdrawals involving the use of Fixed Income Fund account balances.

For more information on month-end transactions, see the Thrift Plan section of your *Benefits Handbook.* Please note that if you make a transfer between the Fixed Income Fund and Equity Group Funds, you must wait three months until you can execute another transfer between those groups. No changes have been made to the rules affecting transfers to or from the Government Securities Fund.

SMART BENEFiTS On-Line!

SMART BENEFiTS has its own website that you can access at work or at home. This new website incorporates the look of the SMART BENEFiTS campaign and replaces the intranet site for the Office of Employee Benefits.

In addition to the *Benefits Handbook,* daily Thrift Plan updates, and other reference materials, the site houses electronic copies of the SMART BENEFiTS print materials. You can also link to *Benefits Express On-Line* from the new website, in case you want to look at your individual benefits information, using your account number and your PIN.

The main advantage of the SMART BENEFiTS website is that you and your family members can access this site from any PC. By offering an Internet-based site, we ve made general benefits information available to:

- You, at home;
- Your families;
- Retirees and their spouses; and
- Prospective employees.

What You Can Find On The Site

At this time, the new SMART BENEFiTS website has four main areas:

- Home Page;
- Benefits;
- SMART Updates; and
- Publications.

You can navigate to these areas from any page on the site by clicking the buttons in the banner.

The Home Page

The Home page introduces the site and provides navigation links to:

- The site index;
- Information about the Office of Employee Benefits (OEB); and
- The Adobe website for a free download of Adobe Acrobat Reader. Most of the documents on the site are in Portable Document Format (PDF) and can only be viewed using Adobe s Reader.

There is also a link that allows you to send feedback on the site to the Office of Employee Benefits.

Benefits

When you click on the Benefits link in the banner at the top of the page, you ll reach the Benefits page. The main part of the page contains general information about your System benefits and links to general sources of information. These include:

Frequently asked questions;

Issues of SMART BENEFiTS *News;* and

Your *Benefits Handbook.*

Along the left side of the screen are links to pages that contain information specific to each of your System benefits (Thrift, Retirement, Life and Accident, Disability, and Health). You can easily navigate from one page to another by using these links. Within the benefit-specific pages, links are provided to relevant websites and vendors such as *Benefits Express On-Line* and Caremark (for its list of primary drugs).

SMART Updates

The SMART Updates area of the site will keep you up to date on important benefits-related information. The main page contains:

Links to your Thrift Plan investment updates (daily and monthly);

Tips to help you use your plans most effectively; and

Key dates, such as deadlines or plan effective dates.

Publications

Other benefit-related information sources provided by the OEB are available through the Publications area of the SMART BENEFiTS website. These include:

Annual reports;

Guides to using *Benefits Express* and *Benefits Express On-Line;*

Issues of *OEB Notes* (for active staff); and

Issues of *Of Note* (for retirees).

Accessing The Site

To access the SMART BENEFiTS site, use the following URL:

www.smartbenefits.selfservicenow.com

Most of the content on the site is updated monthly, or as needed. However, we continue to update the Thrift Plan unit values daily. The updated daily unit values are available after 10:30 a.m. each business day.

No Access To The Web?

If you don t have access to the Web from either work or home, several Federal Reserve locations have kiosks from which employees can access electronic information. In addition, we continue to use print materials as our primary way of communicating benefits information to you. The new SMART BENEFiTS website is just another source of information about your System benefits.

Need More Information?

For more information about how your Retirement and Thrift Plans work:

Refer to the *Federal Reserve Thrift Plan And Retirement Plan Highlights* brochure or your *Benefits Handbook* available on-line at www.smartbenefits.selfservicenow.com; or

Call *Benefits Express* at 1-877-FRS-CALL or visit *Benefits Express On-Line* at http://resources.hewitt.com/benefitsexpressoeb.

For more information on all of the benefit enhancements summarized here, visit the SMART BENEFiTS website at www.smartbenefits.selfservicenow.com.

Questions & Answers

Top Questions About The PCO

Q. How is my PCO account initially determined?

A. Your years of service worked between January 1, 1992 and December 31, 2001 determine the value of your PCO account. You are credited with 5% of your 2001 pay for each of the first five years of employment, and 10% of your 2001 pay for each of the second five years of employment. So, the maximum amount credited to your account after 10 years of service is 75% of your 2001 pay.

Q. If I start work after January 1, 2002, how will my PCO account be established?

A. A PCO account is established for you beginning on your first day of work, and is credited with 5% of your pay for the first five years of service, and 10% of your pay for the second five years of service, up to a maximum of 10 years. Ongoing PCO accruals are credited on a monthly basis. If you work any part of a month, you receive an accrual for that month. The crossover from the 5% to 10% accrual rate occurs in the first full month following the completion of the fifth year of service. After 10 years of service, credit to your PCO account stops; however, your PCO account continues to earn interest.

Q. What is the definition of 2001 pay for purposes of determining my PCO account?

A. Your pay includes your 2001 base pay, 2001 overtime, and 2001 shift differential. However, effective in 2002, pay also includes most forms of variable pay, including cash and incentive payments you receive after 2001.

Q. What happens if I have 10 years of full-time service between January 1, 1992 and December 31, 2001?

A. The PCO account is credited with 75% of your 2001 pay. No additional credits will be made for future service. However, the PCO account continues to earn interest based upon the 30-Year Treasury Rate. The benchmark used for calculating the January 1, 2003 rate will be determined in 2002.

Q. How does my part-time service affect my PCO account calculation?

A. Your part-time service between January 1, 1992 and December 31, 2001 is credited toward your PCO account based on the number of hours worked per year. For more information, please see your local Human Resources representative.

Q. How will I know which provides me the greater benefit my PCO account or my formula benefit?

A. You will receive periodic benefit statements disclosing the current value of your PCO account beginning in 2002. In addition, you have on-line access to your account summary at *Benefits Express On-Line* (http://resources.hewitt.com/benefitsexpressoeb).

Q. Do I receive the benefit from my PCO account in addition to my traditional benefit based on the formula?

A. No, you receive the benefit that has the greater value. However, if your formula benefit is greater, you can take a lump sum distribution up to the amount in your PCO account. Taking your PCO will reduce your future monthly benefits.

Q. Is my benefit less valuable because of the introduction of the PCO?

A. The plan is designed to ensure that no one s benefit is less valuable than it would have been under the prior plan. Some employees, based on their age, pay, and length of service, may receive a larger benefit than under the current plan.

Q. When can I take the PCO?

A. You have 90 days after you retire or leave the Federal Reserve to elect a lump sum distribution. This is a one-time-only decision. If you don t take a lump sum distribution within 90 days after retiring or leaving, you will not have the opportunity to make this decision again unless you are rehired and did not previously take a lump sum distribution.

Q. Why is this option called portable?

A. Under the previous Retirement Plan provisions, benefits were generally received as monthly payments and only when you became eligible for early retirement under the plan, beginning at age 50. The PCO enables you to receive a portion, and in some cases all, of your vested benefit as an immediate lump sum distribution when you retire or leave, regardless of your age. Therefore, you can take the benefit with you in the form of cash or roll it over into the Thrift Plan, another employer s qualified plan, or an IRA.

Q. If I take the PCO in cash, will it be taxed?

A. The lump sum distribution from your PCO account is subject to ordinary income taxation, if not rolled over. There is a mandatory 20% withholding on your lump sum payment if it is not directly rolled over to the Thrift Plan, an eligible retirement plan, or an IRA. In addition, there may be a 10% early withdrawal tax if you are under age 55.

Q. I have seven full years of service as of January 1, 2002 and plan on staying with the Federal Reserve for the next several years. How is my PCO account credited?

A. On January 1, 2002, your PCO account was credited with 5% of your 2001 pay for the first five years of service and 10% of your 2001 pay for the next two years of service, for a total of seven years. For any future years of service (up to a maximum of 10 years), your PCO account will be credited monthly at the 10% rate based upon the pay that you earn in each of those years.

This guide contains only the information that is currently available. More details about the changes will be coming in the official Plan documents. If there is a discrepancy between the highlights provided here and the official Plan documents, the Plan documents will govern.